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BARRIERS TO THE INTER-PROVINCIAL MOBILITY OF LABOUR*

Rafael Gomez, York University
Morley Gunderson, University of Toronto

Working Paper 2007-09

Canada

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Abstract

This paper analyzes policy, knowledge gaps and research issues regarding interprovincial labour mobility in Canada and the barriers that inhibit it. The study looks at the theoretical determinants of inter-provincial labour mobility, evidence on inter-provincial mobility and its determinants, and barriers to the inter-provincial mobility of labour and barrier removal policies (options). It also draws lessons learned for Canada by examining the European Union experience free mobility of labour within the union. The paper concludes that comprehensive and rigorous cost-benefit assessments of enhanced interprovincial labour mobility have not been done and are not likely to be feasible given the myriad components that are involved. It also suggests that there is no single barrier to inter-provincial mobility that obviously dominates, although removing excessive barriers that exist in occupational certification of the professions and trades looms large. Disincentives to such mobility fostered by transfer programs like Employment Insurance are also important, although the extent of that importance is in some dispute. Improvement in labour market information is also important not only to foster interprovincial mobility but also as a more general labour market adjustment strategy. The paper also proposes that a barrier removal strategy to foster inter-provincial labour mobility should involve a "continuous improvement strategy" on the various fronts that affect such mobility.

Key words: labour mobility, labour markets, human capital

Résumé

Cette étude analyse la politique, le manque de données et la recherche en matière de mobilité interprovinciale de la main-d'oeuvre au Canada et les obstacles qui entravent cette mobilité. Elle examine les déterminants théoriques de la mobilité interprovinciale de la main-d'oeuvre, les éléments d'information sur celle-ci et ses déterminants ainsi que les obstacles qui l'entravent et les mesures (options) pour les supprimer. À l'intention du Canada, elle dégage également des enseignements de l'examen de la libre circulation de la main-d'oeuvre au sein de l'Union européenne. Elle conclut qu'une mobilité interprovinciale accrue de la main-d'oeuvre n'a pas fait l'objet d'évaluations coûts-avantages globales et rigoureuses et que de telles évaluations ne sont probablement pas réalisables compte tenu de la myriade de facteurs qui interviennent. Selon cette étude, la mobilité interprovinciale n'est pas entravée par un obstacle unique qui serait prépondérant, même si la suppression des obstacles excessifs qui existent dans le cas des accréditations professionnelles revêt une grande importance. Les programmes de transfert comme l'assurance-emploi constituent également un frein important à l'accroissement de la mobilité, bien que l'on ne s'entend pas vraiment sur leur importance. Une meilleure information sur le marché du travail s'avère également essentielle non seulement pour accroître la mobilité interprovinciale, mais aussi à titre de stratégie d'adaptation au marché du travail d'une plus grande portée générale. Cette étude propose aussi qu'une stratégie d'élimination des obstacles qui vise à accroître la mobilité de la main-d'oeuvre comporte une « stratégie d'amélioration continue » qui serait déployée dans les divers secteurs qui influent sur une telle mobilité.

Mots-clés : mobilité de la main-d'oeuvre, marché du travail, capital humain

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EXECUTIVE SUMMARY

Inter-provincial labour mobility has numerous positive effects:

- Fosters *internal efficiency* by allocating resources to their most valued and productive use
- *Reallocates labour* away from the declining sectors and regions towards expanding ones and thereby provides benefits to both sending and receiving regions by:
  - *reducing labour and skill shortages* in the expanding sectors (thus reducing bottlenecks in production with their related consequences such as lost output, reduced employment of complementary workers and inflationary wage increases)
  - *reducing unemployment and unemployment* in the declining sectors (thereby reducing the individual and social problems associated with such unemployment)
- Provides a *quicker response* compared to other mechanisms such as immigration or enhancing the "pipeline" through the education or training system
- *Reallocates existing skills* have already been "produced" as opposed to the costly and uncertain process of producing those skills through the education and training system.
- Provides a key ingredient of *active labour market adjustment,* fostering adjustment in the direction of basic market forces.
- Involves *constant marginal adjustment* thereby reducing the risk of the ultimate more disruptive infra-marginal in such forms as costly mass layoffs and plant closings

Inter-provincial mobility of labour can also have potential negative effects:

- Fostering a "brain drain" and loss of human capital from "sending" regions, especially of youths and the more educated, with the loss of provincial subsidies to the education and training of such persons
- Possibly fostering a "race to the bottom" of regulatory initiatives if jurisdictions compete for mobility by reducing those initiatives (e.g., excessively reducing their occupational licensing or certification requirements; lower taxes or higher education subsidies)
- Fostering an inefficient reallocation of labour *if* the mobility is not in response to real productivity and wage differentials, but rather is in response to rents arising from such factors as natural resource rents (or the public services financed by such rents), union wage rents, public sector wage rents, and rents arising from different regulatory practices
- Long-run inefficiencies if, for example, youths myopically drop out of school to leave for boom projects in other provinces
- High personal cost for some individuals such as older workers in isolated communities or workers with families, homes and considerable community ties and built-up social capital

While there are these potential negative effects of inter-provincial labour mobility, it is unlikely that their importance detracts in a substantial way from the positive and documented effects of such mobility. The negative effects are part-and-parcel of the more general "costs of adjustments" – costs which should not be trivialized, but which are likely dwarfed by the costs of *not* adjusting.

The inter-provincial mobility of labour is positively affected by the incremental benefits associated with such mobility and negatively affected by the incremental costs.

- Benefits can come in various forms: higher earnings (from higher wages or employment probabilities or both); higher transfer payments or access to social services; and better climate or other amenities including housing costs.
- Costs can also come in various forms: information and search costs; moving costs; costs of re-qualifying credentials; losses of pension benefits; psychic costs including losses of community ties and social capital; and costs associated with relocating other family members – an issue especially when more than one family member works as is increasingly the case.
- Since this is an inter-temporal investment decision when the benefits come in the future and the costs are incurred in the current period, financing the move can also be an important issue. The inter-temporal aspect also highlights the importance of the expected length of the benefit period for amortizing the various costs, as well as the uncertainty surrounding the benefits and costs.

This simple framework highlights a number of determinants of mobility and the empirical evidence generally confirms their importance. Specifically:

- Mobility occurs from the low wage, high unemployment provinces to the higher wage, low unemployment provinces.
- Mobility is negatively affected by the distance and other costs of the move.
- Mobility is lower for older persons, the less educated, and married persons.
- Mobility into and out of Quebec is lower than most provinces, reflecting the language and cultural differences. Quebec francophones are the least mobile.
- Transfers like Employment Insurance (EI) tend to discourage mobility but the evidence is not conclusive.
- The evidence is also mixed on the effect of migration induced by resource rents and public expenditure on items like health and education that may be financed by such resources rents.
- Migration rates within Canada are lower than those within the U.S. but higher than those within the European Union.
- Quebec, Saskatchewan, Manitoba and Newfoundland are the main provinces of out-migration, and British Columbia, Ontario and Alberta are the main destination provinces or recipients of in-migration, with Alberta being the main source in recent years.
- Inter-provincial migration has declined consistently from 1.94 percent of the population in 1970 to 1.12 percent in 1995. Although the precise reasons for that decline have not been sorted out, contributing factors could include:
  - Aging of the population with fewer older persons moving
  - Increased proportion of two-earner families which complicates moving
  - Decrease in family size which can facilitate moving but which also means the numbers reflect fewer movers

- Increased immigration which may be a substitute for inter-provincial mobility
- Increased government transfers and regional development policies
- Reduced income differentials across the provinces.

Barriers to the inter-provincial mobility of labour include:

- Occupational certification and licensing in the professions and trades
- Transfer payments like EI
- Borders themselves, at least to the extent that people have more trust, networks and familiarity with the norms and institutions within their province
- Preferential hiring and procurement practices on the part of governments
- Non- compete clauses enforced through the courts
- Features of the education system emanating from such factors as curriculum differences, quotas and residency requirements with respect to financial aid
- Language differences as well as language regulations
- Potential substitutes for inter-provincial mobility, including immigration, temporary work permits and visas, and offshore or inshore outsourcing including that of business services.

In many cases, these barriers to inter-provincial mobility serve other purposes. As such, any barrier removal policies must consider the trade-offs with respect to these other purposes. With this caveat in mind, effective barrier removal policies include:

- With respect to certification and licensing within the professions and trades:
  - Common or standardized education requirements and licensing exams
  - Mutual recognition agreements in areas of education, licences and certificates (as in the Red Seal program for apprentices)
  - Credential recognition programs including that for foreign credentials
  - Prior learning assessment and recognition (PLAR) where prior experience is recognized
  - Common training standards
  - Harmonized terms used to describe the occupational qualifications of all trades
  - Having consumer groups or representatives of the general public on self-governing licensing bodies to serve as a check on excessive restrictions on entry into the profession while at the same time as representing the public interest
  - Emphasising the less intrusive certification procedures (which give the exclusive right to title) rather than the more restrictive licensing procedures (which give the exclusive right to practice)
  - Removing residency requirements
  - Restricting the use of "grandparent clauses"

- Reduce the regional subsides that exist in transfer payments like EI, such as regionally extended benefits and regional eligibility criteria

- Reduce preferential hiring and procurement practices where preferences are given to those within a province
- Reduce the use of "no-compete" clauses
- Reduce barriers within the education system such as credit recognition, quotas and residency requirements
- Strive for continuous improvement in the existing labour market information systems, especially with respect to standardization of the information across provinces.

The experience of the European Union (EU) with inter-regional labour mobility suggests:

- Extensive mobility did not occur after free mobility was allowed within the EU in 1968.
- The mobility that did occur did respond to the economic incentives of higher wages and better employment opportunities.
- Internal mobility *within* EU countries themselves is much greater than external mobility *across* EU countries (i.e., people tend to move within their country and not across countries, as indicated in the previous discussion of border effects).
- International immigration *into* the EU is also slightly greater than mobility *across* EU countries (i.e., EU countries get more international immigrants from non EU countries than they do from other countries within the EU).
- Even though mobility within EU countries is more important than across EU countries and it does respond to economic factors, mobility within EU countries is much smaller than it is within countries like the US, Canada and Australia. Labour adjustment to economic shocks within the EU occurs more through changes in labour force participation rates than it does through migration.
- As such, migration plays only a minor role in the convergence of income in the EU.

This lack of mobility across countries within the EU can be attributed to a number of factors:

- Language and cultural barriers are substantial (unlike between provinces within Canada, except for Quebec).
- Recognition of professional qualifications and education standards are incomplete, in spite of mutual recognition arrangements.
- Housing regulations and financing can be a barrier to moving to a new community.
- Discrimination can inhibit mobility.
- European labour markets tend to be inflexible with high rates of long duration unemployment for "outsiders" who are not protected as are "insiders" so that moving to take advantage of a high wage may entail having to engage in long periods of "wait" unemployment, as well as competing against immigrants.
- Cost of living differences negate some of the income differences, especially since wages often reflect cost of living differences.
- Foreign direct investment has been a substitute for migration as investment has flooded into the poorer countries to take advantage of the lower wages.
- The tendency towards convergence of income that has occurred as a result of economic integration has also reduced much of the economic incentive for migration.

BARRIERS TO THE INTER-PROVINCIAL MOBILITY OF LABOUR

INTRODUCTION

Inter-provincial mobility of labour has taken on increased importance from a policy and practical perspective for a number of reasons. Such mobility is necessary to *foster internal efficiency* as a pre-condition for external efficiency to enhance productivity and competitiveness in global markets. If labour is not efficiently allocated *within* a country it is hard to imagine that country being competitive internationally. This is especially the case since pressures from free trade and globalization require reallocations away from the declining sectors and regions that are adversely affected by import competition and towards the expanding ones that benefit from the export growth. In a world where goods and capital flow freely on an international bases and prices are set in international markets, the main source of strategic competitive advantage for high-wage countries is in its strategic use of its human resources. In such a world, they must be allocated towards their most efficient use.

Inter-provincial mobility of labour is also crucial to alleviate the *labour and skill shortages* that are arising, and especially associated with the retirement of an aging workforce and the resource boom expansion. Otherwise, bottlenecks in production can develop that have other negative consequences such as lost output, reduced employment of complementary workers and inflationary wage increases. Internal mobility can be a *quicker response* compared to other mechanisms such as immigration or enhancing the pipeline through the education or training system. Quicker responses are desirable to avoid the lags that can lead to cob-web type adjustments of oscillating cycles of shortages and surpluses. Reliance on immigration brings other risks especially those associated with the fact that recent cohorts of immigrants are having increasing difficulty assimilating into the labour market[1].

Inter-provincial mobility of labour also has the virtue of *alleviating surpluses of unemployed or under-employed* labour in the sending regions. In essence, by reallocating labour from areas of labour surplus to areas of labour shortage it can, respectively, contribute to both reduced unemployment in the sending region and reduced shortages in the receiving region. The labour supply reduction in the sending regions should foster wage increases in those regions and the labour supply increase in the receiving region should dampen wage increases, with those forces *reducing the income differential across regions.*

Mobility also has the virtue of *reallocating existing skills* that have already been "produced" as opposed to the costly and uncertain process of producing those skills through the

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[1] Abdurrahaman and Skuterud (2005), Frenette and Mortissette (2003) and references cited therein.

education and training system. In effect, it involves the effective *utilization* of existing skills rather than the costly process of creating new skills, and having the under-utilized skills languishing in regions where they are not used.

Mobility is a key ingredient of an *active labour market adjustment* strategy that is generally preferred to the alternative of passive income maintenance. Mobility fosters adjustment in the direction of market forces and thereby improves situations in both the sending and receiving region.

Mobility also involves *constant marginal adjustment* from those who are most mobile and therefore likely to benefit most by it or experience the lowest cost. This constant marginal adjustment reduces the risk of the ultimate need for the more costly and disruptive infra-marginal adjustments that are likely to occur if such constant adjustments are not made. Infra-marginal adjustments involve such forms as mass layoffs and plant closings – adjustments that are costly and disruptive not only to individuals but also to their community (with feedback effects on individuals in such forms as losses in the value of their homes as well as losses of community ties and social capital[2]). Workers who lose their job because of mass layoffs and plant closings experience large wage losses, typically in the neighbourhood of 15-25 percent[3]. As well, they experience substantial stress that increases the risk of health problems, child abuse, spouse abuse, accidents and criminal activity – all of which negatively impact on the individuals, their families, their communities and the cost of social services.[4] Fostering constant marginal adjustments through mobility can release the pressure that otherwise builds up and leads to costly infra-marginal adjustments.

Clearly, inter-provincial mobility is an increasingly important adjustment mechanism. The importance of geographic labour mobility is recognized on an international basis as evidenced by the fact that the European Commission designated 2006 to be the European Year of Worker Mobility (Traser 2006, p.6). Understanding that mobility and the barriers that inhibit it -- the purpose of this analysis – thereby is also increasingly important. This gives rise to a range of questions. What are the basic determinants of inter-provincial labour mobility, in theory and in practice? What are the major barriers that inhibit the inter-provincial mobility of labour? What does economic theory say about the potential impact of these barriers, and what empirical evidence do we have on their actual impact? To what extent are the determinants of mobility subject to policy control or at least manipulation by governments? What are the policy levers that can be used? To what extent do the barriers emanate as a (likely unintended) consequence of other government policies? To what extent is the mobility of labour and capital or goods substitutes or complements? What are the alternatives to mobility to fill skill shortages? Are there possible negative consequences from enhanced inter-provincial mobility (e.g., a brain drain

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[2] Social capital is defined by the OECD (2001, p.41) as "networks together with shared norms, values and understandings that facilitate co-operation within or among groups,"

[3] Benjamin, Gunderson and Riddell (2002, p. 556).

[4] Gunderson and Riddell (2000, p. 26) cite the Canadian evidence linking the risk of job loss and unemployment to these broader social risks.

of youths; a potential "race to the bottom" in regulations; dropping out of school to engage in boom projects)? What has been the experience of the European Union when they allowed free mobility of labour within the union? What are the major unanswered research questions in connection with inter-provincial mobility?

The purpose of this paper is to address these questions. In the government policy arena, particular attention will be paid to barriers that exist in legislative and policy initiatives that unintentionally inhibit inter-provincial labour mobility – highlighting the trade-offs that are involved if these barriers are removed. For employers, the same issue will be emphasised with respect to unintended barriers in their workplace and human resource practices that inhibit such mobility (e.g., pensions).

THEORETICAL DETERMINANTS OF INTER-PROVINICAL LABOUR MOBILITY

As in all areas of labour policy, it is important to have an understanding of the underlying *causal* factors that influence the mobility decision. This is so for three main reasons. First, a causal understanding is necessary so as to be able to predict future changes when the underlying causes may change. Prediction based on simply extending past correlations can be hazardous in the presence of underlying structural changes. Second, a causal understanding is necessary so as to be able to predict the impact of policy initiatives and the tradeoffs that may be involved. Third, a causal understanding is necessary so as to understand how the actions of the private market participants may undo the effect of policy initiatives.

The economic model of mobility, appropriately expanded beyond standard economic considerations to include social aspects of the costs and benefits of mobility, can provide a useful analytical framework for understanding the potential impact of barriers to mobility. In this section, this theoretical analytical framework is laid out. In a subsequent section, empirical evidence is provided.

The economic model treats the mobility decisions as a human capital investment decision. As such, it depends upon whether the discounted incremental expected future benefits outweigh the current incremental cost of making the move. The private benefits can come in various forms: higher earnings (from higher wages or employment probabilities or both); higher transfer payments or access to social services; and better climate or other amenities including housing costs. Private costs can also come in various forms: information and search costs; moving costs; costs of re-qualifying credentials; losses of pension benefits; psychic costs including losses of community ties and social capital; and costs associated with relocating other family members – an issue especially when more than one family member works as is increasingly the case. Since this is an inter-temporal investment decision when the benefits come in the future and the costs are incurred in the current period, financing the move can also be an important issue. The inter-temporal aspect also highlights the importance of the expected length of the benefit period for amortizing the various costs, as well as the uncertainty surrounding the benefits and costs.

The economic model assumes that individuals are well informed about the costs and benefits of an inter-provincial move. This may be somewhat unrealistic given the complexities that are often involved in assessing both the costs and benefits, especially since the move often involves a change not only in a job, but also in a new home, school and network of friends. The complexities are furthered when the move involves family decision making and hence can be subject to intra-family bargaining. The economic model does *not* assume that individuals make their decisions on the bases of *monetary* costs and benefits alone. As indicated, psychic and other costs and benefits can be also be involved.

Broader social costs and benefits can also be involved in such inter-provincial mobility. On the broader social cost side, and as emphasized in sociological perspectives such as those of Myrdal (1957) and Polèse (1981), inter-provincial mobility can foster a "brain drain" and loss of human capital from "sending" regions. Since mobility tends to be higher amongst youths and the more skilled and professional workers, this can imply a loss of the very persons who may be most needed in local communities. It can also imply a loss of provincial subsidies that went into the education and training of such persons.

In *theory,* inter-provincial labour mobility *could* also have broader social costs if it led to a "race to the bottom" of regulatory initiatives if jurisdictions compete for mobility by reducing those initiatives. This could occur in two forms. First, jurisdictions could try to compete to attract or retain such workers by reducing their occupational licensing or certification requirements. While the reduction of "excessive" requirements is desirable (and would be considered a social benefit), it is possible that the reduction of some requirements could be against the public interest (and hence a social cost). Second, jurisdictions could try to compete to attract and retain such workers through such mechanisms as lower taxes or higher education subsidies[5]. It is not clear, however, whether this should be regarded as a negative practice and hence social cost (i.e., a "begger-thy-neighbour" practice that acts as a barrier to efficient mobility) or simply "good old-fashion competition" across political jurisdictions (and hence a social benefit), with those regions that value such skills the most bidding the most for them. While theoretically possible, in practice, a "race to the bottom" does not appear to have occurred, at least based on the Mutual Recognition Agreements (MRAs) that have so far been negotiated across provinces[6].

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[5] In 2006, for example, New Brunswick instituted a plan that rebates 50 percent of the tuition cost paid for *any* university or college to a global maximum of $10,000 and an annual maximum of $2000 per year, with claims being allowed for up to 20 years after graduation. The education does not have to be acquired in New Brunswick but the beneficiaries have to pay taxes in New Brunswick, the rationale being to attract higher educated youths from other provinces as well as retaining New Brunswick grads. Manitoba has a policy of rebating tuition for Manitoba graduates who stay in the province for five years after graduation and Saskatchewan offers a one-year post-secondary tax credit for graduates who stay in the province. See, for example, Calgary Herald, November 14, 2006, p. A5; Saskatoon Star-Phoenix, Nov. 15, 2006, p. A13.

[6] HRSDC has found no occupation in which this has occurred in the existing MRAs.

In theory, inter-provincial mobility could also be inefficient and involve broader social costs if it is not in response to real productivity differentials, but rather is in response to rents arising from such factors as natural resource rents (or the public services financed by such rents), union wage rents, public sector wage rents, and rents arising from different regulatory practices[7]. Such mobility could lead to inefficient queuing for jobs with such wage rents or migration to get the local public goods that are financed out of such rents. This is in contrast to general geographic mobility which enhances efficiency if it responds to wage differentials arising out of productivity differentials.

Inter-provincial mobility can also lead to long-run private and social costs if, for example, it results from youths dropping out of school to leave for boom projects in other provinces, as is sometimes expressed about the Alberta boom today. The decision may be based on short-run gain but lead to "long-run pain" if the boom turns out not to be sustainable. It is difficult to assess this possibility, however, since job experience (even if it is short-run) may be more valuable than education for youths who are not oriented towards conventional education. More research is needed on this issue.

The psychic and non-economic cost of inter-provincial mobility can also be very high for some individuals. This is especially the case for older workers in isolated communities and for workers with families, homes and considerable community ties and built-up social capital. In that vein it may be very rational for such persons not to move even if the monetary costs and benefits would dictate such a move. That is why the emphasis is, and should be, on removing barriers to the *voluntary* inter-provincial mobility of labour, and not on compelling such mobility.

There can also be broader social benefits to inter-provincial mobility that may not be fully captured in the private economic calculations of individuals or their families. Mobility, for example, may foster the use of new technologies and help in the diffusion of innovations and new ideas – key components of the new knowledge economy. It can reduce structural bottlenecks and curb labour shortages, and these in turn can facilitate the employment of others and reduce costs. Mobility can also save on government transfer payments if it enables individuals or their families to leave such programs. Mobility rights are also conferred on individuals under section 6 of the Charter of Rights and Freedoms, and this can be sufficient justification for eliminating barriers to labour mobility in Canada, independent of the economic cost-benefit calculation.[8]

The analytical framework presented here highlights a number of predictions – predictions that have been empirically tested in the literature (discussed subsequently). For example, other

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[7] See, for example, Gunderson (1996, p. 10) and the public finance literature on fiscal federalism (e.g., Boadway and Flatters 1981, 1982; Day 1992; Mills, Percy and Wilson 1983, Watson 1986).
[8] This latter point is emphasized by Grady and Macmillan (2007) and in comments made by Robert Knox.

things equal, older workers are less likely to engage in inter-provincial mobility than are younger workers for a number of reasons: their expected future benefit period is shorter; their (opportunity) cost of moving is likely higher reflecting their higher wages; their moving costs are likely to be greater if they have a home to sell and family to relocate; they are more likely to face a joint labour supply problem if they have a spouse or partner to relocate; their psychic costs are likely to be greater if they have built up community ties and social capital; they are more likely to experience the loss of seniority rights as well as pension benefit accruals from a private pension plan; their credentials and experience may not be recognized; and they may have more difficulty in re-testing to establish their credentials. Since older workers are less likely to move, this also implies that the inter-provincial mobility of labour may also be declining for demographic reasons as the population ages. It may also decline, reflecting the growing number of multiple earner families where jobs for two or more persons have to be found in the new locality.

The framework also highlights that mobility is likely to be from provinces of lower wages and lower employment opportunities to ones of higher wages and better employment opportunities, although this can be mitigated somewhat by higher housing prices and cost of living in the high wage regions. This also suggests that such mobility may decline if there is a convergence of wages and employment opportunities, although it certainly will be sparked by increasing wages and employment opportunities in provinces like Alberta.

Importantly from a policy perspective, the framework also highlights that transfer programs that support staying in a region can deter mobility out of that region. This can be the case with employment insurance and especially with the features of regionally extended benefits and easier qualification in regions of high unemployment. This must be qualified, however, by the possibility that employment insurance can provide income support that could enable a person to search over a more extended range of job opportunities (including those in other provinces) rather than to take the first local job that comes available and that may not be long lasting. As well, the Employment Benefit Support Measures (EBSMs) of Part II of EI are more in the nature of active labour market adjustment programs that can foster mobility. This is tempered by the fact, however, that the various components of EBSMs (e.g., job search information, job placements, training programs, self-employment assistance) would invariably be within a province and generally within the local community.

This analytical framework also highlights that *inter*-provincial mobility across provincial borders is likely to be more costly than *intra*-provincial mobility within a province. This is so in part because the geographic distance of a move is likely to be greater when changing provinces, but also because of possible cultural and linguistic differences as well as more intangible factors associated with an inter-provincial move. This is most obvious in the case of Quebec, but it can also apply across other provinces.

EVIDENCE ON INTER-PROVINCIAL MOBILITY AND ITS DETERMINANTS

The empirical evidence generally confirms the theoretical expectations about the determinants of the inter-provincial mobility of labour[9]. Specifically:

- Mobility occurs from the low wage, high unemployment provinces to the higher wage, low unemployment provinces.
- Mobility is negatively affected by the distance and other costs of the move.
- Mobility is lower for older persons, the less educated, and married persons.
- Mobility into and out of Quebec is lower than most provinces, reflecting the language and cultural differences. Quebec francophones are the least mobile.
- Transfers like EI discourage mobility but the evidence is not conclusive (detailed later)
- The evidence on the effect of migration induced by resource rents is mixed, with Day (1992) finding some induced migration in response to public expenditure on items like health and education which she argues are financed in part out of resources rents. However, Shaw (1986) finds no such effects, and Watson (1986) finds them to be small.
- Migration rates within Canada are lower than those within the U.S. but higher than those within the European Union[10].
- Quebec, Saskatchewan, Manitoba and Newfoundland are the main provinces of out-migration, and British Columbia, Ontario and Alberta are the main destination provinces or recipients of in-migration, with Alberta being the main source in recent years[11].
- Inter-provincial migration has declined consistently from 1.94 percent of the population in 1970 to 1.12 percent in 1995 and around 1 percent today[12]. Although the precise reasons for that decline have not been sorted out, contributing factors could include:
  - Aging of the population with fewer older persons moving
  - Increased proportion of two-earner families which complicates moving
  - Decrease in family size which can facilitate moving but which also means the numbers reflect fewer movers
  - Increased immigration which may be a substitute for inter-provincial mobility
  - Increased government transfers and regional development policies
  - Reduced income differentials across the provinces.
  - Intra-provincial mobility within a province is greater than inter-provincial mobility across provinces which in turn is generally greater than net immigration to a province[13]

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[9] For Canadian evidence on the determinants of such mobility see Courchene (1970, 1984), Cousineau and Vaillancourt (2000), Day (1992), Day and Winer (1994, 2001, 2006), Dostie and Léger (2006), Finnie (2000), Grant and Vanderkamp (1976), Helliwell (1994), Laber and Chase (1971), Lin (1995), Mansell and Copithorne (1986), Osberg and Gordon (1991), Osberg, Gordon and Lin (1994), Robinson and Tomes (1982), Shaw (1985), Vanderkamp (1968, 1971, 1976, and 1986) and Winer and Gauthier (1982).

[10] Cousineau and Vaillancourt (2000) p. 173 and Grady and Macmillan (2007).

[11] Cousineau and Vaillancourt (2000 p. 150) and Grady and Macmillan (2007).

[12] Cousineau and Vaillancourt (2000, p. 149).

BARRIERS TO THE INTER-PROVINCIAL MOBILITY OF LABOUR AND BARRIER REMOVAL POLICIES

Clearly, both theory and empirical evidence suggests that the inter-provincial mobility of labour is affected by the economic costs and benefits of such mobility as well as by broader sociological factors associated with networks, trust and familiarity that give rise to a preference for remaining within ones' border. There are, however, numerous barriers that can discourage the internal mobility of labour over and above these factors[14]. Many are the (perhaps unintentional) by-product of other government initiatives or practices. The purpose of this section is to outline these barriers and to suggest policies that can be considered to reduce such barriers, as well as to highlight the various trade-offs that are involved if barriers are removed. Empirical evidence on the importance of such barriers is also presented where it is available.

Occupational Certification and Licensing

Occupational certification and licensing can create artificial barriers that deter mobility across provinces with different certification and licensing requirements. The power to certify and license in professions and the trades is granted by governments to self-governing bodies in the different provinces for various professions and trades. Kleiner (2006) estimates that approximately 25 percent of the U.S. workforce is covered by government regulated licensing or certification laws. The Forum of Labour Market Ministers (2001, p. 1) estimates that approximately 15 to 20 percent of workers in Canada work in one of the 51 regulated occupations under the Agreement on Internal Trade. Grady and Macmillan (2007, p. 3) provide a conservative estimate of 11.1% of the labour force are in regulated occupations and professions, excluding construction and some small occupation groups.

The rationale for licensing and certification is generally related to protecting the public in areas where it is difficult to judge the quality of the service and the service is often essential. Licensing involves the exclusive right to *practice* (sometimes termed *mandatory licensing*) in that persons without the licence cannot practice in the trade or profession. In contrast, certification (sometimes termed *voluntary trades*) or professions) involves only the exclusive right to *title* in that only those with the certification can use that title but others can practice in the trade or profession. Certification is obviously much less restrictive than licensing in that entry into the trade or profession is less restricted.

The licensing and certification bodies have the power to set or recognize various requirements related to the work including: formal education; intern training and experience

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[13] Current evidence provided by Day (2007).

[14] Such barriers to inter-provincial mobility are discussed, for example, in Gunderson (1994) and HRDC (2001) and references cited therein.

periods; licensing exams; credentials acquired elsewhere; prior learning and experience recognition (PLAR); and residency requirements.

While the ostensive purpose of such power is to protect the public, there is the danger that entry into the profession or trade will be restricted so as to sustain higher pay for the incumbent professionals or tradesperson. Establishing certification and licensing requirements that effectively impose barriers to the inter-provincial mobility of labour is one form that such restrictions can take. As strongly stated by the recent Immigration Legislative Review Advisory Group (1998, p. 36):

> "Each province at some stage in its history created bodies that were empowered to regulate access to trades and professions in the province through licensing and registration requirements. These associations have operated in an extremely independent manner, often free of political scrutiny and accountability. Many have used their role as protectors of the health and safety of consumers as a guise to protect the interests of their members through exclusionary entrance requirements. This has made *inter-provincial mobility* [emphasis added] for all Canadians extremely difficult, and has created even greater barriers for immigrants, who are viewed as a threat to the earning power of the members of some professional associations, and as unknown quantities with unknown qualifications by other bodies."

The empirical evidence generally confirms that occupational licensing deters mobility across regions[15].

Barrier removal in this area could include some combination of the following[16]:

- Common or standardized education requirements and licensing exams
- Mutual recognition agreements in areas of education, licences and certificates (as in the Red Seal program for apprentices)
- Credential recognition programs including that for foreign credentials

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[15] U.S. evidence on the negative effect of occupational licensing on the inter-regional mobility of labour is provided in Kleiner 2006, Kleiner, Gay and Greene 1982 and Pashigan 1979, 1980.

[16] Removing such barriers to mobility is the objective of the Labour Mobility Chapter (7) of the Agreement on Internal Trade (AIT) signed in 1994 that came into effect in 1995. That agreement focused on barrier removal in three main areas: (1) residency requirements; (2) licensing, certification and registration of workers (to ensure that such requirements are related principally to competence, they are published regularly, they do not result in unnecessary delays, and they do not impose fees or other costs that are burdensome); and (3) recognition of occupational qualifications such as through mutual recognition arrangements and reconciliation of occupational standards (Forum of Labour Market Ministers, undated, 2001). In 2004, British Columbia and Alberta also agreed to the Trade, Investment and Labour Mobility Agreement (TILMA) (Conference Board of Canada 2005, p. 4, 18). That agreement is to come into force on April 1, 2007 and to be fully implemented by April 1, 2009.

- Prior learning assessment and recognition (PLAR) where prior experience is recognized
- Common training standards
- Harmonized terms used to describe the occupational qualifications of all trades
- Having consumer groups or representatives of the general public on self-governing licensing bodies to serve as a check on excessive restrictions on entry into the profession while at the same time as representing the public interest
- Emphasising the less intrusive certification procedures (which give the exclusive right to title) rather than the more restrictive licensing procedures (which give the exclusive right to practice)
- Allowing employers who are likely to be well informed more leeway in their use of certified or licensed personnel
- Removing residency requirements
- Restricting the use of "grandparent clauses". In such clauses incumbent practitioners are exempt from more stringent entry requirements they may impose on new entrants to the profession or trade. This may encourage them to set excessive requirements to restrict entry (effectively "pulling up the ladder behind them). Having incumbents meet the new requirements they may set on new entrants should discourage excessive requirements.

Transfer Payments Like EI

Transfer payments can be a barrier to mobility across provinces effectively by subsidizing the "stay" option and discouraging the "leave" option. This can be the case with federal equalization payments and especially with unemployment insurance with its regionally extended benefits and easier qualification in regions of high unemployment. Such transfers, however, can also provide the means to facilitate mobility and job search. The empirical evidence generally confirms that unemployment insurance reduces the amount of internal migration[17]. However, the results are not robust and the effects are sometimes small.

Coulombe and Lee (1995), for example, conclude that regional convergence in living standards has been substantially slowed by sustained regional differences in unemployment rates which in turn are fostered by the regional extended benefits and qualifying periods in EI. They conclude (1995, p. 53): "The key to reduce regional disparities in regional living standards in Canada is to reduce regional disparities in unemployment rates... We suggest the best way to do it is to facilitate adjustment in the labour market [i.e., labour mobility] by eliminating regional distortions such as regionally extended unemployment benefits and the perverse subsidy to seasonal unemployment that comes out of the UI system." In an earlier study, the Economic Council of Canada (1991b, p. 43) indicated that prior to the 1971 liberalization of unemployment

[17] For Canadian evidence on the effect of transfers, and especially UI, in deterring mobility see Courchene (1970, 1978), Copithorne (1986), Coulombe and Day 1999, Coulombe and Lee 1995, Economic Council of Canada 1991b, Maki (1977), May and Hollett 1986, 1995, Shaw 1985, and Winer and Gauthier 1982.

insurance, the Atlantic provinces were experiencing substantial net out-migration. After the liberalization, this was reversed to net in-migration in three of the four provinces.

Winer and Gauthier (1982), however, find the effect of unemployment insurance to be sensitive to the specification of the estimation equations. Osberg and Gordon (1991) and Osberg, Gordon and Lin (1994) also highlight this fact, and their own results indicate that unemployment insurance does not usually have a statistically significant impact on migration. They also find inter-industry mobility to be more prominent than inter-regional mobility. Lin (1995) finds that inter-provincial migration is not affected by receipt of UI or social assistance, and Finnie (2000) finds that receipt if UI is associated with an increase in the out-migration of prime age men and women[18]. In more recent studies, Day and Winer (2001, 2006) find the full array of government policy variables (unemployment insurance, personal income taxes, social assistance and provincial and federal spending) to deter the inter-provincial mobility of labour, but the magnitude of the effect is small. This is so relative to the main factors which affect such mobility such as differences in earnings, employment prospects and especially moving costs, as well as unusual shocks like the election of the PQ in Quebec and the closing of the cod fisheries in Atlantic Canada. This small effect of the policy variables is also the case for the features of unemployment insurance (regionally extended benefits and regional differences in qualifying requirements) that are most likely to have a negative impact on mobility. Audas and McDonald (2003, p. 31) emphasis that the mobility of high-skilled labour is not likely to be deterred by such programs since they tend not to access them. However, they do find that UI inhibits migration for those with only a moderate attachment to the labour force and that the more stringent rules after the reforms if UI in 1996 likely induced migration for those with a marginal attachment to the labour force. Overall, while the research results tend to find evidence that transfers and government policies deter mobility across provinces, the results are by no means unanimous, with some finding no impact or only a small impact. Clearly, more research is needed in this area.

Winer and Gauthier (1982) find that federal equalization payments to the provinces also deter inter-provincial mobility, although Watson (1986) finds the impact to be small.

Borders and Social Capital

Borders themselves can be a significant barrier to labour mobility. The gravity models in the trade literature highlight that external "borders matter" in that there is considerably more inter-provincial trade *within* a country compared to external trade *across* countries even after adjusting for factors that should affect trade flows like distance and size of markets and tariffs. Helliwell (1998 and references cited therein), for example, finds that internal trade flows amongst provinces within Canada were 20 times more prominent than external flows to the U.S. in 1990, even after controlling for other factors that should influence such flows. Such preferences for internal trade were reduced to being 12 times more prominent by 1993, after the

[18] As Day and Winer (2005, p. 3) point out, this receipt of UI could reflect the lack of employment opportunities in the home region rather than the incentive effect of UI itself.

Free Trade Agreement with the U.S; nevertheless, a strong preference for internal trade still remained even after borders were opened up. Similar preferences were found for financial transactions as well as mobility flows within national borders.

Helliwell emphasises that such preferences reflect the importance of trust, norms, institutions and familiarity. He states: "Being further away from home usually means being less well-connected to local networks, less able to understand local norms, and less able to be sure how much to trust what people say. These changes occur as one gets further from familiar territory…" (Helliwell 2005, p. 52). While he made those statements in the context of impersonal *trade* flows, surely they would apply even more forcefully to the more personal flows of *individuals* across borders. It is true that *international* borders are likely to be much more inhibiting than *provincial* borders; nevertheless, the same principles should apply to preferences for mobility within a provincial border when compared to across provincial borders. In essence, this literature suggests that the inter-provincial mobility of labour may be inhibited simply by the provincial borders themselves, at least to the extent that people have more trust, networks and familiarity with the norms and institutions within their province.

Systematic evidence on the effect of provincial borders in inhibiting the mobility of labour across provinces does not seem to be available. That is, we do not have direct evidence from applying gravity models to determine the extent to which mobility within a province is much more prominent than mobility across provinces, after controlling for the effect of distance and size of city. Helliwell (1998, chapter 5) does provide evidence of *national* border effects for migration, and Helliwell and Helliwell (2000) provide evidence that UBC graduates are much more likely to remain within British Columbia than to migrate within Canada and especially to the U.S.. As well, Helliwell (2003) provides evidence that inter-provincial mobility in Canada is about the same magnitude as inter-state mobility in the U.S., but that such mobility is more responsive to economic factors (unemployment and income) in Canada than in the U.S. This is surprising given the more extensive social safety net and government redistribution in Canada. As indicated previously, Day (2007) also provides evidence that intra-provincial mobility flows within a province are generally more than double the inter-provincial flows across provinces. While there is this limited evidence, more systematic evidence of provincial border effects in deterring inter-provincial mobility does not appear to be available – an area that merits research.

Preferential Hiring and Procurement Practices of Governments

Preferential hiring and procurement practices on the part of governments can be a barrier to inter-provincial mobility as local residents are favoured for public sector jobs or in the awarding of government contracts. Government permits for natural resource or construction projects in the private sector may also require that preferences be given to hiring local employees (Milne 1987).

It is understandable that governments react with such practices when they are followed by other governments. But mutually agreeing to hire on the basis of competitive market forces

and qualifications would enable them to escape from this "prisoner's dilemma" that makes them all worse off. Requiring preferential hiring and procurement practices deters the inter-provincial mobility of labour and hence the allocation of skills to their most efficient uses.

This had been a long-standing and contentious issue between Ontario and Quebec with Quebec shutting out Ontario construction workers saying that they do not meet Quebec training standards. In the late 1990s, this led to their being six times as many Quebec construction workers in Ontario than Ontario workers in Quebec. The culminating incidence was the Quebec government excluding Ontario contractors from bidding on the Hull casino. Ontario argued that such restrictions were designed to limit competition from out-of-province firms, and instituted the *Fairness is a Two-Way Street Act* in 1999 which resulted in hundreds of Quebec workers being dismissed from Ontario construction projects. As well, informal pressures were used such as the assigning of more inspectors in Ontario to "badger Quebec workers in the Ottawa area to ensure they meet provincial health, tax and labour regulations (Rugly 1999, p. B2)." Also, the Ontario government encouraged municipalities, school boards and hospitals to voluntarily not accept bids from Quebec contractors . This reminds us that informal pressures can be as important as formal rules and regulations. After Quebec agreed to allow construction workers to work in either province, the *Fairness* Act was repealed. Other barriers still remain, however, such as the fact that taxi drivers in Ottawa cannot go across the river to pick up passengers in Hull, and vice versa, obviously impeding the inter-provincial mobility of taxi drivers.

Trade unions that control hiring practices through the hiring hall (e.g., in construction) can also give hiring preferences for persons who live or work in the zone. Obviously, this can serve the purpose or reducing the need for such persons to leave the district to work, but it can also deter inter-provincial mobility.

No-Compete Clauses and Labour Mobility

Regulations that prohibit former employees from competing with a former employer by starting a new business or working for a competitor can also deter inter-provincial mobility, although its deterrent effect is likely to be strongest for mobility *within* a regional cluster. This is especially the case for professional and higher-level personnel for whom such restrictions are most relevant.

The more rapid expansion of the Silicon Valley cluster compared to the Route 128 cluster around Boston is attributable in part to the knowledge spillovers emanating from the greater mobility of knowledge workers in the Silicon Valley compared to the Route 128 cluster. This greater mobility in Silicon Valley has been attributed, in part, to the fact that "no-compete clauses" that prohibit competing with one's former employer by starting a new business or working for a competitor are prohibited in California but enforced in Massachusetts (Gilson 1998). As such, entrepreneurs in Massachusetts are less likely to be mobile and spread new ideas. In essence, "no-compete" clauses are a potential barrier to labour mobility.

Differences in Education Systems

Inter-provincial mobility may also be deterred by features of the education system that differ across provinces. For example, credits may not be recognized because of differences in curriculum. Quotas can exist within universities as can residency requirements with respect to financial aid. As detailed previously, some provinces have offered free tuition to students who remain in the province for a period of time after they graduate. Differences in the elementary and secondary education systems can also deter families from making inter-provincial moves. The recent elimination of Grade 13 in Ontario has likely reduced this barrier to migrating in or out of Ontario, but Quebec's CEGEP system remains a substantial difference between the education system in Quebec and that of other provinces (Day 2007, p.4). Obviously, these conditions exist for other reasons; nevertheless, they can deter potential labour mobility and for the more highly educated who are the very people who tend to be most mobile.

Language Regulations and Requirements

Language regulations and requirements can be a barrier to the inter-provincial mobility of labour. Requirements in Quebec that education and other services be in French may deter mobility into that province, while a lack of services in French outside of Quebec may deter mobility out of that province.

Empirical evidence does not exist on the importance of such language barriers. However, as indicated previously, mobility into and out of Quebec is lower than most provinces and Quebec francophones are one of the least mobile linguistic groups.

Labour Market Information

Lack of information about jobs in other provinces can be a significant barrier to inter-provincial labour mobility. Certainly, labour market information is privately provided as evidenced by private job search agencies such as Monster.com as well as head-hunting organizations at the higher level. Industry associations and sector councils also often conduct employer surveys. Such surveys, however, are often ad hoc, focussing on the particular occupations and industries relevant to the association and they seldom have timely disaggregated occupational detail or supply side information.

Labour market information is also provided through a range of public sources. The Workplace and Employee Survey (WES) provides general vacancy information, although there is a two-year lag before the data is out, and the information cannot generally be provided by occupation and industry at the local level. As such, it tends not to be used for current labour market information that would facilitate making inter-provincial moves.

The Canadian Occupation Projection System (COPS) also provides net labour demand projections by occupation and industry with the labour demand component coming from a macro forecasting model and labour supply measures coming from retirements, deaths, school leavers, net migration, labour force participation and job changers. The quantitative projections from the models are then qualitatively adjusted based on input from various stakeholders including industry associations, professional groups, unions, academics and sector councils. Forecasts exist at the provincial and national level in the form of Job Futures reports and on-line information. The categories and formats, however, are not always the same across provinces making it difficult for a user to tell if a particular occupation will be more in demand in one province as opposed to another.

Based on provincial salary surveys, Service Canada provides information on wages and salaries for local labour markets in specific occupations in specific provinces (e.g., for welders and related machine operators (NOC 7265) in Fort McMurray Alberta). Depending upon the sample size, information may be given on three wage levels (average wage and the high- and low-wage) as well as for three levels of experience (starting wage, general workforce and experienced workforce) and with three levels of reliability indicated (high, good and lower) based on sample size and hence likely sample error. While such information could be extremely useful for making decisions about an inter-provincial move, its usefulness is somewhat limited by the fact that the information may be dated. For example, information for January 2007 refers to the reference period of January 2005 to May 2005, almost a two-year lag. The web-based information also provides links to other relevant information including: occupational profiles; job descriptions; job and skill requirements; who hires; where to get training; cost of living; local labour market news; career information in specific industries (e.g., construction) and specific employment opportunities posted by some employers.

Human Resources and Skills Development Canada also operates the public Electronic Labour Exchange (ELE) called Job Bank where employers post *specific* job vacancies and applicants post their qualifications. The ELE facilitates instant updating and allows accessing from home and remote sites; however, it is dependent upon employers listing their need and applicants posting their qualifications.

The provision of such labour market information so as to facilitate the inter-provincial mobility of labour could be enhanced by co-ordinating the COPS forecasts across the provincial governments to provide the information on a more consistent and more refined basis. As well, continuous improvement in the Service Canada wage information and the Internet based ELE is merited since the potential for this is likely to grow, albeit this job matching method is likely to be used more by persons at the lower skill level (since it effectively replaces the old "paper and posting" exchange).

Immigration and Inter-National Migration as a Substitute for Internal Mobility

Immigration and even temporary work permits and visas can be a substitute for the inter-provincial mobility of labour, as can the offshore or inshore outsourcing including that of business services. Employers may feel less pressure to draw workers in from other provinces if readily available pools are available from permanent or temporary immigration or from outsourcing. Also, domestic workers may be less likely to move to another province if they are competing with permanent or temporary immigrants for the jobs. Immigration can be especially important in Canada since we rank only below Australia and New Zealand in terms of the proportion of its population that is foreign born (OECD 2004, p.43). Under NAFTA, the flows of skilled labour were fostered through provisions for professional and temporary work visas (Papademetriou 2003). Temporary mobility provisions are also part of the General Agreement on Trade in Services (GATS) under the World Trade Organisation (WTO). They tend to involve managers, executives and specialists, especially pertaining to inter-company transfers. The GATS provisions are used less often than the NAFTA ones, however, because they involve more restrictions (Shore 2001).

Evidence is not available on the extent to which permanent or temporary immigration or outsourcing is a substitute for the inter-provincial mobility of labour. Even if they are substitutes, however, they should not be regarded so much as barriers to the inter-provincial mobility of labour as opposed to a viable alternative to internal mobility. It may well be better for employers to outsource some of their production to lower wage provinces as opposed to attracting workers in from such provinces – moving jobs to people as opposed to people to jobs may be socially desirable as well as economically efficient.

Other Legislative Barriers

Other administrative barriers that are not occupation specific can also deter mobility across provinces. This could be the case, for example, with respect to legislation and regulations in various areas: minimum wages; hours of work and overtime; layoffs, dismissal and plant closings; human rights and anti-discrimination; pay and employment equity; occupational health and safety; workers' compensation and disability regulations; and laws governing the establishment and conduct of collective bargaining.

In theory, individuals could move to provinces that had such laws and regulations that benefited them given their personal and demographic characteristics and therefore served as "pull factors". In some cases, they could serve as "push factors" if, for example, high minimum wages in one province reduced employment opportunities for some groups who then would move to another province. Evidence does not exist on the impact on mobility of such factors. Whether this reflects a gap in our analysis or the belief that they are not likely to be strong determinants of such mobility is an open question. They are certainly more likely to affect the location and investment decisions of firms than the movement of individuals.

EUROPEAN UNION EXPERIENCE

The experience of the European Union (EU) with labour mobility across borders within the EU is informative for the Canadian experience since the EU allows not only free mobility of goods and capital, but also the free mobility of labour (since 1968). That is, the countries within the EU are like provinces and territories within Canada – largely allowing the free mobility of goods, capital and labour (as well as a common currency, a common external tariff and some centralised political power).

When the EU moved to free mobility of labour within the EU in 1968, there were expectations that there would be extensive mobility across the borders given the large wage differentials between high-wage countries like Germany and France and the (then) low wage countries of Greece, Portugal and Spain.

Although there is not systematic data on migration across the different EU states (Puhani 1999, p.2) the following conclusions can be drawn from studies of EU migration[19]:

- Extensive mobility did not occur after free mobility was allowed within the EU in 1968.
- The mobility that did occur did respond to the economic incentives of higher wages and better employment opportunities.
- Internal mobility *within* EU countries themselves is much greater than external mobility *across* EU countries (i.e., people tend to move within their country and not across countries, as indicated in the previous discussion of border effects).
- International immigration *into* the EU is also slightly greater than mobility *across* EU countries (i.e., EU countries get more international immigrants from non EU countries than they do from other countries within the EU).
- Even though mobility within EU countries is more important than across EU countries and it does respond to economic factors, mobility within EU countries is much smaller than it is within countries like the US, Canada and Australia. Labour adjustment to economic shocks within the EU occurs more through changes in labour force participation rates than it does through migration.
- As such, migration plays only a minor role in the convergence of income in the EU.

This lack of mobility across countries within the EU can be attributed to a number of factors:

- Language and cultural barriers are substantial (unlike between provinces within Canada, except for Quebec).
- Recognition of professional qualifications and education standards are incomplete in spite of mutual recognition arrangements.

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[19] Studies of European mobility and migration include: Barro and Sala-i-Martin 1991, Decressin and Fatas 1995, Eichengreen 1993, Gros 1996, OECD 1986, Puhani 1999, Straubhaar 1988 and Zimmermann 1995.

- Housing regulations and financing can be a barrier to moving to a new community.
- Discrimination can inhibit mobility.
- European labour markets tend to be inflexible with high rates of long duration unemployment for "outsiders" who are not as protected as "insiders" so that moving to take advantage of a high wage may entail engaging in long periods of "wait" unemployment, as well as competing against immigrants.
- Cost of living differences negate some of the income differences, especially since wages often reflect cost of living differences.
- Foreign direct investment has been a substitute for migration as investment has flooded into the poorer countries to take advantage of the lower wages.
- The tendency towards convergence of income that has occurred as a result of economic integration has also reduced much of the economic incentive for migration.

SUMMARY OF NEGATIVE AND POSITIVE EFFECTS OF ENHANCED MOBILITY

As discussed previously, inter-provincial labour mobility has numerous positive effects. They are summarized here as:

- Fosters *internal efficiency* by allocating resources to their most valued and productive use
- *Reallocates labour* away from the declining sectors and regions towards expanding ones and thereby serves the dual purpose of:
  - *reduces labour and skill shortages* in the expanding "receiving" sectors (thereby reducing bottlenecks in production with their related negative consequences such as lost output, reduced employment of complementary workers and inflationary wage increases)
  - *reduces unemployment and unemployment* in the declining "sending" sectors (thereby reducing the individual and social problems associated with such unemployment)
- Provides a *quicker response* compared to other mechanisms such as immigration or enhancing the "pipeline" through the education or training system.
- *Reallocates existing skills* that have already been "produced" as opposed to the costly and uncertain process of producing those skills through the education and training system.
- Provides a key ingredient of *active labour market adjustment* fostering adjustment in the direction of basic market forces.
- Involves *constant marginal adjustment* thereby reducing the risk of the ultimate need for the more costly and disruptive infra-marginal in such forms as costly mass layoffs and plant closings

There are, however, possible negative effects and social and non-economic costs associated with the inter-provincial mobility of labour, as discussed previously. They are summarized here as:

- Possibly fostering a "brain drain" and loss of human capital from "sending" regions, and especially of youths and the more skilled and professional workers who can help most in

developing the "sending" region; this can also imply a loss of provincial subsidies to the education and training of such persons

- Possibly fostering a potential "race to the bottom" of regulatory initiatives as jurisdictions try to compete to attract or retain such workers by reducing their occupational licensing or certification requirements, or by competing to attract and retain such workers through such mechanisms as lower taxes or higher education subsidies. It is not clear, however, that these are always negative outcomes, and the empirical evidence suggests that they do not occur.
- Possibly fostering inefficient mobility if it is not in response to real productivity differentials, but rather is in response to rents arising from such factors as natural resource rents (or the public services financed by such rents), union wage rents, public sector wage rents, and rents arising from different regulatory practices.
- Possibly fostering long-run inefficiencies if, for example, the mobility results from youths dropping out of school to leave for boom projects in other provinces, as is sometimes expressed about the Alberta boom today.
- Possibly leading to high psychic and non-economic cost for some individuals such as older workers in isolated communities or workers with families, homes and considerable community ties and built-up social capital.

While there are these potential negative effects of inter-provincial labour mobility, it is unlikely that their importance detracts in a substantial way from the positive and documented effects discussed previously. In many ways, the potentially negative effects are part-and-parcel of the more general "costs of adjustments" – costs which should not be trivialized, but which are likely dwarfed by the costs of *not* adjusting.

CONCLUSION AND POLICY DISCUSSION

Clearly, there are numerous benefits to enhancing the inter-provincial mobility of labour and hence costs to the barriers that inhibit such mobility. There are also potential costs to fostering such mobility, although as indicated, it is unlikely that their importance detracts in a substantial way from the positive and documented benefits.

Comprehensive and rigorous cost-benefit assessments of enhanced inter-provincial labour mobility have not been done and are not likely to be feasible given the myriad components that are involved. One small component of the benefits of enhanced mobility – reducing labour and skill shortages – for example would require quantifying such components as reduced bottlenecks in production with their related negative consequences such as lost output, reduced employment of complementary workers and inflationary wage increases. Such a task would be daunting, and it is but one small component of the myriad of benefits of enhanced mobility – benefits that would have to be traded off against associated costs.

There is also no single barrier to inter-provincial mobility that obviously dominates, although removing excessive barriers that exist in occupational certification of the professions

and trades looms large. Disincentives to such mobility fostered by transfer programs like EI are also important, although the extent of that importance is in some dispute. Improvement in labour market information is also important not only to foster inter-provincial mobility but also as a more general labour market adjustment strategy.

A barrier removal strategy to foster inter-provincial labour mobility should involve a "continuous improvement strategy" in the various fronts that affect such mobility including:

- Occupational certification and licensing in the professions and trades
- Transfer payments like EI
- Borders themselves, at least to the extent that people have more trust, networks and familiarity with the norms and institutions within their province
- Preferential hiring and procurement practices on the part of governments
- Non- compete clauses enforced through the courts
- Features of the education system emanating from such factors as curriculum differences, quotas and residency requirements with respect to financial aid
- Language differences as well as language regulations
- Potential substitutes for inter-provincial mobility, including immigration, temporary work permits and visas, and offshore or inshore outsourcing including that of business services.

Throughout the analysis, a number of areas in need of future research were outlined:

- Analysis of the impact of transfer payments like EI on inter-provincial mobility, given that there does not appear to be general agreement in the literature
- Analysis of the impact of inter-provincial competition to retain and possibly attract educated and skilled workers through such mechanisms as tax rebates and education subsidies (are they "begger-thy-neighbour" practices or efficient competition?)
- Analysis of the extent to which youths may be making short-run myopic decisions to drop out of school to leave for boom projects in other provinces, with such decisions not being in the long-run interest
- Analysis of the extent to which temporary immigration programs deter inter-provincial mobility that could otherwise benefit Canadian workers
- Analysis of the loss of provincial subsidies to the education and training of persons who leave for other jurisdictions
- Application of gravity models to determine the extent to which provincial borders by themselves impact inter-provincial mobility relative to intra-provincial mobility
- Analysis of the reasons for the decline of inter-provincial mobility that occurred since 1970, with particular emphasis on the extent to which it reflects rising barriers to mobility
- Analysis of the potential role of Sector Councils as a possible vehicle for enhancing inter-provincial mobility across the sectors they represent
- Analysis of the remaining barriers in the occupational certification and licensing procedures in the professions and trades and the most effective ways to reduce such barriers.

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